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January 4, 2002

Gloria Blue  
Executive Secretary  
Trade Policy Staff Committee  
Office of the United States Trade Representative  
600 Seventeenth Street, N.W.  
Washington, DC 20508

Re: **Public Comments on Potential Action Under Section 203 of the Trade Act of 1974 With Regards to Imports of Certain Steel: *Comments on What Action the President Should Take Under Section 203 of the Trade Act of 1974, as Amended, With Regard to Imports of Stainless Fittings and Flanges***

Dear Ms. Blue:

Pursuant to the Notice of Request for Comments (66 Fed. Reg. 54321, October 26, 2001, modified 66 Fed. Reg. 59599, November 29, 2001 and 66 Fed. Reg. 67349, December 28, 2001) on behalf of The Committee on Pipe and Tube Imports; Alloy Stainless Products Co., Inc.; Bitrek Corporation, a division of Anvil International, Inc.; Capitol Manufacturing Company; Ideal Forging Corporation; and Maass Flange Corporation, we hereby submit Comments on What Action the

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President Should Take Under Section 203 of the Trade Act of 1974, as Amended, With Regard to Imports of Stainless Fittings and Flanges.

Should you have any questions regarding this submission, please do not hesitate to contact the undersigned.

Respectfully submitted,

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**SUBMITTED TO THE  
TRADE POLICY STAFF COMMITTEE  
OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE**

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**PUBLIC COMMENTS ON POTENTIAL ACTION UNDER  
SECTION 203 OF THE TRADE ACT OF 1974 WITH REGARD TO  
IMPORTS OF CERTAIN STEEL**

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**Comments on Presidential Action Under  
Section 203 of the Trade Act of 1974 With Regard to Imports of  
Stainless Steel Fittings and Flanges**

Filed on Behalf of:

The Committee on Pipe and Tube Imports;

By:

SCHAGRIN ASSOCIATES

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Alloy Stainless Products Co., Inc.;  
Bitrek Corporation, a division of  
Anvil International, Inc.; Capitol Manufacturing  
Company; Ideal Forging Corporation;  
and Maass Flange Corporation

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**CASE CALENDAR**

Initiation Request to the ITC:	June 22, 2001
Prehearing Brief to the ITC:	September 10, 2001
Hearing at the ITC on Stainless Steel Fittings:	September 28, 2001
Posthearing Brief to the ITC:	October 5, 2001
ITC Vote on Injury to the Domestic Industry:	October 22, 2001
Submission of Adjustment Plans of U.S. Industry and Producers to the ITC:	October 29, 2001
ITC Holds Remedy Hearing on Stainless Products:	November 9, 2001
ITC Vote on Remedy:	December 7, 2001
ITC Submission of Written Opinion to President:	December 19, 2001
Industry Meets with Trade Policy Staff Committee (TPSC):	January 7-11, 2002
Presidential Relief:	February 17, 2002

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**EXECUTIVE SUMMARY**

The Trade Policy Staff Committee (the “TPSC”) should recommend to the President that he implement the recommendation of Commissioner Devaney with regard to imports of stainless steel fittings and flanges. Commissioner Devaney’s proposed quota remedy would limit imports of stainless steel fittings and flanges to the average quantity of imports from 1996-1998 for a period of four years. This quota remedy would give the domestic industry relief from the recent surge in imports which has destroyed volume, forced plant closures, and reduced the profitability of domestic producers. The quota relief would also permit the domestic industry to implement its adjustment plan which would ensure that the domestic industry can compete effectively with imports when the period of relief ends. Commissioner Devaney’s proposed quota relief would provide much more effective relief for the domestic industry than a tariff or tariff rate quota. If the TPSC does consider a tariff or tariff rate quota, however, it should recommend the tariffs proposed by Commissioner Bragg beginning at 30 percent.



**I. THE INTERNATIONAL TRADE COMMISSION'S REMEDY RECOMMENDATION**

Subsequent to the International Trade Commission's (the "Commission") affirmative determination on October 22, 2001 that stainless steel fittings and flanges were being imported in such increased quantities to be a substantial cause of serious injury to the domestic industry, the Commission issued a recommendation on December 7, 2001 as to how to remedy the injury to this industry.

Only three Commissioners voted affirmatively during the injury phase of the investigation with regard to stainless steel fittings and flanges. Therefore only Chairman Koplan and Commissioners Bragg and Devaney voted on remedy.<sup>1</sup> Each of these three Commissioners issued a separate remedy recommendation for the domestic industry. Chairman Koplan recommended a four year tariff starting at 15 percent, decreasing to 12 percent in the second year, 9 percent in the third year, and 6 percent in the fourth year.<sup>2</sup> Commissioner Bragg recommended a three year tariff, starting at 30 percent, decreasing to 25 percent in the second year, and 20 percent in the third year.<sup>3</sup> Commissioner Devaney recommended a quota for a period of four years using the average quantity of imports from 1996-1998 as the quota limit.<sup>4</sup> Additionally, both Commissioners Bragg and Devaney found that

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<sup>1</sup> 19 U.S.C. § 2252(e)(6).

<sup>2</sup> *Steel*, Inv. No. TA-201-73, USITC Pub. 3479 (Dec. 2001) (hereinafter *ITC Report*) at Vol. I, 409-10, 421-26.

<sup>3</sup> *Id.* at 517-26.

<sup>4</sup> *Id.* at 540, 547-52.

imports from Canada and Mexico were contributing importantly to the serious injury inflicted on the domestic industry.

**II. THE TPSC SHOULD RECOMMEND THAT THE PRESIDENT APPLY A QUOTA USING THE AVERAGE QUANTITY OF IMPORTS FROM 1996-1998 TO IMPORTS OF STAINLESS STEEL FITTINGS AND FLANGES**

Each of the three Commissioners who found that the domestic industry suffered injury issued a separate remedy recommendation for stainless steel fittings and flanges. The TPSC should recommend to the President that he adopt the recommendation of Commissioner Devaney, who recommended that a quota set at the average quantity of imports from 1996-1998 be applied to imports of stainless steel fittings and flanges for a period of four years. This quota remedy would address the serious injury that has been inflicted upon the domestic industry by imports and would allow the domestic industry to implement its adjustment plan.

**A. Scope**

The imports subject to the Commission's remedy recommendation are stainless steel fittings and flanges. These fittings and flanges are used in pipe systems in various industries, including petrochemical stock lines, pharmaceutical production lines, automotive paint lines, and other manufacturing industries such as breweries, paper mills, and general food facilities. The presence of chromium, nickel and other alloying elements in the steel allows for the greater tolerance to temperature, pressure, and corrosiveness required by these industries. The stainless steel flanges and fittings fall under HTSUS

subheadings 7307.21.1000, 7307.21.5000, 7307.22.1000, 7307.22.5000, 7307.23.0000, 7307.29.0030, and 7307.29.0090.

**B. The Domestic Industry**

The product group of stainless steel fittings and flanges consists of several distinct types of products. Stainless steel flanges (both finished flanges and flange forgings), pipe fittings, and butt-weld fittings all fall within this product group. Producers of these stainless steel fittings and flange products, however, generally only produce products in one distinct segment of the group. That is, producers make only flanges, pipe fittings, or butt-weld fittings, with no overlap among product lines due to significant manufacturing differences.

**C. The Record Evidence Unequivocally Supports the Recommendation of Commissioner Devaney**

The quota recommended by Commissioner Devaney is the absolute minimum relief required to allow the industry to recover from the serious injury it has suffered due to a sudden dramatic influx of low-priced imports. The recommendations of Chairman Koplan and Commissioner Bragg would not

provide effective relief. Even the maximum tariff would not remedy the large levels of underselling by imports which were documented in the injury investigation.<sup>5</sup>

The evidence contained in the record demonstrates the serious injury that was inflicted on the domestic industry. The following sections review the injury caused by increased imports and the severity of their impact on the domestic stainless steel fittings and flange industry and its production workers.

**1. Imports of Stainless Steel Fittings and Flanges Have Increased And Have Taken A Dramatically Higher Share of the U.S. Market**

Table 1 shows imports of stainless steel fittings and flanges by volume and by quantity during the period from 1996 through the first half of 2001.<sup>6</sup> Imports surged from 18,345 tons in 1996 to 31,826 tons in 2000. This represents an increase of 73.5 percent over the four year period.<sup>7</sup> See Table 2. By comparison, the total value of imports only increased only 51.3 percent over that same period.

Imports of stainless steel fittings and flanges have also dramatically increased their penetration of the domestic market. Imports increased their domestic market share approximately ten percentage

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<sup>5</sup> See *ITC Report* at Vol. I, 550 & n.121.

<sup>6</sup> See also *ITC Report* at Vol. III, STAINLESS-19.

<sup>7</sup> The statute directs the ITC to consider increased imports in actual terms and as a percentage of domestic production. 19 U.S.C. § 2252(c)(1)(C). The data related to domestic production is confidential, however.

points from 1996 to 2000. It is extremely significant to note that while imports were increasing their market share over the period from 1996-2000, domestic consumption of stainless steel fittings and flanges also increased steadily over the same period. Unfortunately, domestic producers were not able to benefit from this increase in demand due to the loss of market share taken by imports, as evidenced by their destroyed volume, forced plant closures, and reduced profitability.

**2. The Unprecedented Surge of Low-Priced Imports Has Had A Devastating Impact on Domestic Producers and Their Production Workers**

As indicated by the Commission's affirmative finding of injury, the domestic stainless steel fittings and flange industry suffered serious financial losses, plant shutdowns, and layoffs of part of the workforce during the period of increased imports. The dramatic increase in imports that occurred between 1996 and 2000 inflicted serious injury on the domestic industry. Profitability steadily eroded during this same period. The small return domestic producers received in 2000 is simply not enough to sustain an industry which requires significant capital investments to remain competitive in the market.

Employment levels in the stainless steel fittings industry were hard hit from 1996-2000, decreasing by approximately 14 percent at the same time consumption increased over 40 percent. In interim 2001, employment was down another 11 percent from the previous year. Additionally, the total hours worked in the fittings industry decreased by around 15 percent from 1996 through 2000, and

total wages paid decreased slightly. In interim 2001 both hours worked and wages paid continued to decline. The industry's failure to garner profits during times of peak consumption has left the stainless steel fittings and flange industry in no condition to weather the current decreases in demand levels compounded with high import volumes. Domestic producers have no option now but to continue laying off their workers and keep the remaining workers' wages low.

### **1. Imports Have Caused U.S. Market Prices To Plummet**

Prices of stainless steel fittings and flanges plummeted to record lows during the period from 1996-2000. In many instances, import prices were below domestic producers' manufacturing costs.

Imports dragged domestic prices steadily down during the period from 1996-2000. The weighted average prices of domestic stainless steel flanges and fittings fell 38.9 percent from 1996 to 2000, during a period of record demand.<sup>8</sup> During this same period, the weighted average price of non-NAFTA imports fell 43.3 percent.<sup>9</sup> Foreign oversupply destroyed the domestic market. It thus appears that foreign producers were and continue to be willing to drop prices in the stainless steel fittings and flange market to whatever level necessary to gain additional market share at the expense of the domestic industry.

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<sup>8</sup> *ITC Report* at Vol. III, STAINLESS-85.

<sup>9</sup> *Id.*

**D. A Quota Remedy Is the Absolute Minimum Relief Necessary to Allow the Domestic Industry to Recover from Serious Injury and to Accomplish Adjustment Plans**

**1. The Recommended Remedy**

The proposed quota remedy will allow the domestic industry to adjust to the increased levels of import competition, one of the goals of Section 201 relief.<sup>10</sup> The quota is the relief preferred by the domestic industry because the margins of underselling for these high value products are simply too great to overcome with tariff relief.

A quota is also preferable to a tariff in this product group because the Commission only collected pricing data on stainless steel butt-weld pipe fittings and has no pricing data on the other products in this group upon which to base a tariff. Specifically, no information was collected on flange, nipple, or coupling pricing and the margins of underselling may not be identical to other products within this group.

To ensure that a quota is administered in the most equitable manner, Commissioner Devaney recommended that the quarterly quota limits be subdivided by HTS number so that all domestic producers in this product group will receive relief from imports.<sup>11</sup> Failure to subdivide the quota could prove disastrous for certain producers. As mentioned during the hearings before the Commission, some foreign producers of these stainless steel products have distribution centers here in the United

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<sup>10</sup> See 19 U.S.C. § 2251(a).

<sup>11</sup> *ITC Report* at Vol. I, 550.

States and they could easily take advantage of the storage facilities to move large quantities of the product early in the relief period, thereby filling quota levels. The probable pricing “race to the bottom” associated with quotas could be thwarted by implementing a more specific quota subdivision for these products.

In the event that the TPSC does not recommend the quota relief proposed by Commissioner Devaney, but rather recommends a tariff or tariff rate quota to remedy the injury that the domestic stainless steel fittings and flange industry has sustained, the TPSC should recommend that the President adopt the remedy recommendation of Commissioner Bragg.<sup>12</sup> Commissioner Bragg’s proposed remedy would place a tariff of 30 percent on imports of stainless steel fittings and flanges for the first year, decreasing to 25 percent in the second year, down to 20 percent in the third year.

## **2. Adjustment Plans**

With appropriate relief, the domestic stainless steel flange and fittings industry will be able to implement viable adjustment plans that will make the industry more competitive with imports at the expiration of the remedy period. The producers of stainless steel fittings and flanges represented here presented individual adjustment plans which together reflect the intention to invest approximately \$7.8 million over a four year period of relief for further modernization of equipment for more cost efficient production, including implementation of technological advances and automation. While the details of these plans are confidential, the plans reflect an intention to enhance competitiveness by purchasing and

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<sup>12</sup> *See id.* at 517-26.



upgrading equipment which will permit these producers to improve efficiency and product characteristics and quality. These adjustments will facilitate positive adjustment to import competition.

### **3. Effects of Remedy**

The quota recommended by Commissioner Devaney would guarantee that the domestic industry could regain some of the market share that it has lost to imports over the past five years. From 1996 to 2000, the domestic stainless steel fittings and flange industry lost significant market share to imports. The unfortunate coincidence of the timing of this loss of market share with a period of increased demand further compounded the financial plight of the domestic industry. Now that demand levels are declining, it will be increasingly more difficult to regain market share. A quota will assist by providing predictability, regardless of demand fluctuations.

To implement its adjustment plan, the domestic industry needs to generate profits to create the ability to make sizable capital investments. A quota eliminates the risk that surges of low priced imports will claim additional market share. The security associated with a quota will allow domestic producers to gain volume, thereby increasing sales and operating income and reducing average unit costs. The adjustment plans that the producers of stainless steel fittings and flanges have submitted demonstrates that they intend to focus on increasing efficiency and lowering unit costs. These domestic producers know that they cannot compete with labor rates in other countries, so they will focus on automating as many tasks as possible to regain their competitive advantage. Additionally, they will focus on installing the most current technology available to ensure that they manufacture high quality products required by various industries.

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In addition to the benefits that a quota will provide to the domestic industry, the proposed quota will permit a specified amount of fittings and flanges to continue to enter the United States without burdening tariffs. Thus, foreign producers with a history of trading will still have the ability to enter products without penalty. The proposed quota remedy will reduce imports from the high levels during 1999 and 2000 to the more historical non-injurious levels of 1996-1998. The lowering of high imports levels will ensure that domestic producers regain some of the market share lost to imports over recent years. With the gain in market share, domestic producers will also subsequently regain the pricing and volumes that will enable them to modernize their facilities and product lines to ensure that the domestic industry can compete effectively with imports when the period of relief ends.

## **CONCLUSION**

The domestic stainless steel flange and fittings industry has been seriously injured by increased imports, and the relief recommended by Commissioner Devaney is urgently needed to safeguard the domestic stainless steel flange and fittings industry from further serious injury and extinction. For all of the foregoing reasons, the domestic producers represented here respectfully request that the TPSC recommend without delay that the President implement the quota remedy recommended by Commissioner Devaney.

Respectfully submitted,

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Corporation; and Maass Flange Corporation

**Table 1**

**Imports of Stainless Steel Fittings and Flanges**

Stainless Steel Fittings and Flanges	Calendar Year					January - June	
	1996	1997	1998	1999	2000	2000	2001
Imports (volume in tons)	18,345	22,430	23,768	23,761	31,826	18,112	13,252
Imports (value)	\$165,092	\$183,986	\$176,032	\$180,208	\$249,858	\$133,739	\$105,203

Source: *Steel*, Inv. No. TA-201-73, USITC Pub. 3479 (Dec. 2001) at Vol. III, STAINLESS-19.

**Table 2**

**Year to Year Changes in Import Levels of Stainless Steel Fittings and Flanges**

Stainless Steel Fittings and Flanges	Period					
	1996-1997	1997-1998	1998-1999	1999-2000	Jan-Jun 2000- Jan-Jun 2001	1996-2000
Imports (volume in tons)	22.3%	6.0%	-0.0%	33.9%	-43.1%	73.5%
Imports (value)	11.4%	-4.3%	2.4%	38.6%	-46.5%	51.3%